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SUBJECT: SCHOLARS OFFER MIXED ECONOMIC AND POLITICAL VIEWS AT WORLD
FORUM ON CHINA STUDIES IN SHANGHAI

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Summary

1. (SBU) The Shanghai Academy of Social Sciences (SASS) hosted
its third World Forum on China Studies September 7-9, to
coincide with the fiftieth anniversary of the establishment of
SASS. This third iteration of the World Forum on China Studies
featured 15 panel discussions and three roundtables on economic,
political, and social issues. Many discussions focused on
China's history rather than future prospects, but when
discussing the future, many panelists offered mixed views on
likely outcomes; in fact, in the case of the economic growth,
panelists were generally pessimistic for the short term. Much
attention was paid to foreign participants and on foreign
academic cooperation with China, and many of the participants
were non-Chinese. SASS introduced several new panel topics at
this year's forum, but some growing pains from the expansion
were evident. End Summary.

Forum Opening: Looking to the Past

2. (SBU) Pol/Econ Chief attended the opening ceremony on
September 7, which featured high-level Party, government and
scholarly participation. Politburo member and Shanghai Party
Secretary Yu Zhengsheng and Mayor Han Zheng were among the
presenters of awards to retired SASS scholars, though neither
were among the half-dozen speakers to address the opening
assembly of about 1000 persons. Presentations at the opening
ceremony largely focused on the history of SASS (which is
celebrating its 50th anniversary), though a Party official
reminded scholars and Party alike of the importance of
"liberating thought" (jiefang sixiang). A video presentation
before the many speeches fleetingly referred to the 1966-1978
Cultural Revolution period; SASS closed its doors from
1968-1978. A SASS graduate, now professor at a Shanghai
university, choked up and nearly brought many persons to tears
when he called on all to remember that some SASS scholars had
given their lives for their country during that dark period in
China's history. The Forum hosted 15 panels and three

roundtable discussions on September 8-9 on topics ranging from economic development to social issues to rule of law to international security, portions of most of which Pol/Econ officers and staff attended.

Economists Divided on China's Growth Prospects

13. (SBU) Economists at the conference largely reflected concerns that China's current economic growth path is not sustainable. Dean of Fudan University's School of Economics Yuan Zhigang called for 2008 to be a "new historical starting point" in China's economic policies, to better handle the rather gloomy list of challenges China faces: the U.S. financial crisis, the energy crisis, the food crisis, the environmental crisis, renminbi appreciation, government revenue volatility, credit constraints, and rises in energy and labor costs. In response to panelists whose dull presentations focused on past growth successes in Shanghai and Harbin, Huang Fuxing, deputy director of the financial markets research office of the Shanghai Academy of Social Sciences, offered a striking critique of the investment-led growth, and instead called for moving forward with developing the service sector and capital markets. The Peterson Institute for International Economics' Nicholas Lardy during remarks opening the conference called the Chinese renminbi unsustainably undervalued, and later privately remarked that Chinese exporters are set for continuing heavy layoffs.

14. (SBU) On the other hand, one panel weighted towards economists influential in turning Chinese economic policy towards greater social spending in the early 2000s was more sanguine about China's growth, focusing more on the longer term.

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For example, Hu Angang, director of the joint Tsinghua/Chinese Academy of Social Sciences Center for China Studies, made a "celebratory" -- in the view of one Western academic attending the conference -- presentation on China's success in investing in future growth. According to Hu's paradigm, the rate of environmental damage, which he acknowledged has been a major detractor from GDP growth, has slowed, while strong investments in human capital, as well as foreign direct investment, will undergird future growth.

Auto Sector Experts Cite Concerns

15. (SBU) Sector experts participating in a panel on the Chinese auto industry echoed concerns voiced by economists on near-term growth. Zhang Guangsheng, Vice Chairman of Shanghai Auto, said China is now the world's second largest passenger auto market behind the United States and boasts 12 - 15 percent of global automobile production, but 2008 is likely to be a challenging year for the sector because:

--the high domestic producer price index (PPI) reflects the surging price of raw materials, namely steel, copper and plastic;

--higher labor costs as a result of the China's Labor Contract Law (LCL), which entered into force on January 1, 2008; and

--weaker domestic demand as evidenced by the drop in vehicle sales in August for the first time in two years; while

--high oil prices and slower growth in the equity markets could result in lower vehicle demand in the future.

Overall, Chinese auto manufacturers are unable to pass through their higher production cost to their end customers. Zhang said the industry would consolidate in the future to create a few giant auto makers. He is not very positive on the industry prospects due to what he regarded as an overall negative economic outlook.

16. (SBU) Lue Keqin, General Manager of Kostal, discussed the

Chinese auto parts industry, reiterating many of Zhang's concerns, including the difficulty of passing through higher raw materials prices to end customers. Auto parts companies will need to both improve technology and lower production costs in order to survive, Lue said. In the past, each auto maker had its own components suppliers, but Lue believes this will change in the future given auto components will become more standardized and auto makers will focus more on quality and technology. Lue also believes more than 50 percent of Chinese auto parts suppliers will shut down due to the challenging market environment.

China's Role in the World

17. (SBU) Panelists on global political and security issues also offered an uncertain picture on the near-term outlook. On East Asian regional cooperation, most participants agreed on the need for integration on some level, but differed regarding how this might be achieved, what arrangements of which states offer the best way forward, and what role the United States should play. During the question and answer period, several attendees aired the view that Washington has "ignored" the region and that integration has been a response to U.S. inaction. Others, including Cai Penghong of SASS, argued that regional efforts have been lackluster thus far precisely because the United States has been insufficiently involved. Egyptian academic Mohammed Selim's questioned the reasoning behind the continuing U.S. military presence in East Asia and the case for its involvement in a regional integration project. In response, moderator and former U.S. Ambassador Nicholas Platt pointed out that the United States remains in East Asia by invitation, and noted that whatever differences East Asian countries may have with the United States, in the end they trust Washington more

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than they do each other.

18. (SBU) Presenters on China's new global role covered a hodgepodge of issues. Huang Renwei of SASS set China's growing global engagement against the rise of mid-level powers, as well as the growth of transnational threats and opportunities. Huang regards China as "a leader in identifying new threats" and, as the developing world's largest member, best suited to represent developing countries. Chen Zhimin of Fudan University discussed Confucian ideals in a global context, stressing that adherents are not "peace fundamentalists" but recognize that military force will have some role in maintaining stability. Tel Aviv University's Aron Shai, meanwhile, caught audience attention by making the case for a Sino-Israeli strategic relationship, and Massoud Daher of Lebanese University disputed Selim's exhortations that China transform its mainly economic engagement with the Middle East to a more multifaceted approach, stating that China's only interest in the region is opening more export markets.

19. (SBU) During a discussion of Chinese diplomacy, Gafar Karar Ahmed, a former Sudanese diplomat and current political consultant to the Qatar Ministry of Foreign Affairs, characterized Beijing's approach as subtler than is often portrayed. Claiming he had "seen the minutes" of meetings between Sudanese officials and the former Chinese envoy to Sudan, Zhai Jun, Karar Ahmed described the Chinese side as tough behind closed doors. During a meeting preceding the first UNSC resolution on the Darfur issue, Zhai told his counterpart that "Sudan is acting negatively" with regards to Darfur and must do something. When Khartoum did not respond, China supported that resolution. In the lead-up to the second UNSC resolution, Karar Ahmed said Zhai warned Sudan that China would not use its veto if Khartoum "did not act." When Sudan again did not respond, China abstained from the vote. Chinese diplomacy is low profile but effective, Karar Ahmed concluded.

The Rule of Law and Social Issues

¶10. (SBU) Rule of Law scholars said China would continue to make incremental improvements in the justice system, encouraging more amendments of laws and promoting a stronger role for local legislatures. Li Lin, Director of the China Social Science Association Law Institute, claimed that among the 229 current valid laws passed by China's National People's Congress (NPC), 71 of them have been amended at least once. During the previous five years from 2003 to 2008, the NPC amended more laws than it drafted. Li said the amendment trend would continue in order to keep pace with China's rapid economic development. Shen Guoming, Director of the Legislative Affairs Commission Standing Committee of the Shanghai Municipal People's Congress (SMPC), agreed with Li and said that also at the local level, amending old laws has become more common than drafting new laws.

¶11. (SBU) Both Li and Shen said local People's Congresses would play a more important role in China's legislative process. Li said that strong local legislatures would promote the development of the national legislature by allowing more experiments at the grass-roots level before introducing a new national law. Shen added that local legislatures can more quickly adjust to economic development and cited the LCL as an example of a law that might be needed in some parts of the country but is causing economic harm in East China and enterprises are complaining about the heavy cost burden resulting from the LCL.

¶12. (SBU) A panel on social transformations that have resulted from economic reform also focused on winners and losers from reform, with the first two speakers focusing on the large income gap. Wu Xiaogang, a Social Sciences professor from Hong Kong University of Science and Technology, said there is a qualitative difference between "inequality" and "inequity" as there are different views on "how much is considered poor and how much is rich?" Wen Jun, Director of the Sociology Department at East China Normal University, discussed the fate

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of rural-to-urban migrants in Shanghai and ensuring a safe, secure, cost-effective flow of migrants to the city. Unfortunately, he said, with his study indicating that more than 90 percent of migrants hope to permanently settle in Shanghai but with many migrants denied an urban registration, it remains unclear how migrants will fare in the near future.

Forum Firsts: Debut Panels on Religion and Energy

¶13. (SBU) In this, the Forum's third iteration, several panel topics appeared for the first time as Forum organizers attempted to branch out and cover new issues. One panel on "China's Transitional Society and Social Services of Religious Organizations" noted the significant contributions of faith-based NGOs in China during 2008, particularly during the Sichuan earthquake and the snow storms that battered central and southern China in January and February. The Chinese Government lacks the human resources, funding and experience to manage religious affairs, several panelists said, and government officials remain concerned about religion's influence on society. Fudan University's Edward Xu asked how the current religious policy would affect the status quo, how the policy affects China's international image, and whether religion would affect national security. Yan Kejia and Ge Zhuang, both religious scholars at SASS, focused on the Shanghai Municipal Government's efforts to better serve expatriate religious groups and Muslim migrant workers.

¶14. (SBU) Another first-time panel, "Energy, Sustainable Development and Climate Change" attracted approximately 20 academics, government officials, and entrepreneurs. According to Yu Guosheng of the Shanghai Municipal People's Congress, the city government's target for energy conservation and emission reductions would be very difficult to meet. Shanghai fell short of its energy conservation target in both 2006 and 2007, Yu said. Zheng Yuxin of the China Academy of Social Sciences said government officials would need to take a broader approach to

include more consumer sectors rather than only industries when considering energy conservation and emission reduction targets.

Comment: Still Some Growing Pains

15. (SBU) Congenoffs and staff attending panel and roundtable discussions uniformly thought too many of the discussions on economic, political and social issues looked predominately backward rather than forward. When looking ahead to near-term economic growth or security, however, views were decidedly mixed, with optimism and pessimism both on display. There often appeared to be more focus on foreign cooperation and foreigners' views on China rather than what is happening inside the country or China's influence on the region and world. In many cases, invited foreign speakers had little experience in China and therefore offered little value to the conference. Congenoffs observed that the Forum faced some growing pains as several of the panels -- especially the new ones -- experienced difficulties organizing discussions of similar themes within the nominal panel topics. Several SASS scholars asked Congenoffs for feedback on the Forum, which we will provide to them in the near future.

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